

**KENTUCKY-AMERICAN WATER COMPANY
CLASSIC CONSTRUCTION, INC.
CASE NO. 2016-00222
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: Linda C. Bridwell

3. Using Classic Construction's balance sheet provided in response to Item 2, provide the journal entries that KAWC will record to reflect the acquisition of Classic Construction.

Response:

Based upon information currently available, KAWC journal entries for the acquisition of Classic Construction are:

Utility Plant in Service	103,440.00	
Accumulated Depreciation		78,223.00
Cash		15,000.00
Goodwill	21,033.00	
Accrued Waste Disposal		31,250.00

Supplemental Response 09/09/16:

KAWC's calculated amount of accumulated depreciation to be reflected in the journal entry differs from the amount listed by Classic Construction. This difference stems from accumulated depreciation on CIAC assets and a single asset in the Collection Sewers Gravity Account that was retired. Please refer to the attachment for the details of this difference.

KAWC's accrued waste disposal amount is estimated by KAWC's Director of Engineering, Brent O'Neill. This estimate assumes that the oxidation lagoon will require a cleaning at a cost of approximately \$62,500 and that the lagoon is halfway through the cleaning cycle. KAWC engineering based the cleaning costs on conversations with Classic Construction regarding previous cleanings. Please refer to footnote B on the attachment.

Sewer System

Description	Classic Construcion Asset Listing		Adjustments		Kentucky AM Water Asset Listing		Notes
	Asset Value	A/D	Asset Value	A/D	Asset Value	A/D	
Land	4,500.00				4,500.00	-	
Structure & Improvements	8,077.00	(4,038.00)			8,077.00	(4,038.00)	
Collection Sewers Gravity	21,990.00	4,466.00	(15,000.00)	(15,000.00)	6,990.00	(10,534.00)	Remove Jetter from asset list - it appears it was never removed; reverse debit of \$15k for retirement of Jetter from accumulated depr.
Flow Measuring Devices	1,500.00	(750.00)			1,500.00	(750.00)	
Pumping Equipment Electric	2,784.00	(1,392.00)			2,784.00	(1,392.00)	
Oxidation Lagoon	2,863.00	(1,432.00)			2,863.00	(1,432.00)	
Treatment & Disposal Equipment	4,661.00	(2,331.00)			4,661.00	(2,331.00)	
Sewage Plant	53,456.00	(53,456.00)			53,456.00	(53,456.00)	
CIAC Assets	20,424.00	(20,424.00)	(20,424.00)	20,424.00	-	-	These assets are not part of the purchase transaction
Pumping Equipment Electric - Addi	13,095.00	(3,019.00)			13,095.00	(3,019.00)	
Treatment & Disposal Equipment -	5,514.00	(1,271.00)			5,514.00	(1,271.00)	
	138,864.00	(83,647.00)	(35,424.00)	5,424.00	103,440.00	(78,223.00)	

Journal Entry

	Kentucky AM Water	Seller	Difference
Utility Plant in Service	103,440.00	103,440.00	-
Accumulated Depreciation		83,647.00	5,424.00 A
Cash	15,000.00	15,000.00	-
Goodwill	21,033.00		21,033.00
Accrued Waste Disposal		31,250.00	(31,250.00) B
Gain on Asset Purchase		6,413.00	6,413.00
Deferred Debit			(1,620.00) C
CIAC		68,851.00	68,851.00 C
CIAC			(68,851.00) C
	124,473.00	124,473.00	

A
Jetter retirement backed out of accumulated depreciation balance; CIAC assets not part of this transaction

B
Per conversation with Brent O'Neill, 8/18/2016 the oxidation lagoon is on a 5-10 year cleaning cycle, and we are approximately half way through that cycle. Estimated costs to clear the lagoon are \$50-\$75k.

Assuming we clean the lagoon every 8 years at an average estimated cost of \$62,500, and that we are half way through the cleaning cycle, estimated cleaning costs as of the acquisition date (October 2016) are \$31,250

C
Kentucky AM Water is not taking on CIAC or any receivable or liability balances of the seller